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Media statement

Monetary Policy statement by the Bank of Namibia

1. The Monetary Policy Committee (MPC) of the Bank of Namibia held its meeting on the 11th of December 2012 to deliberate on the monetary policy stance for the next two months. The Committee reviewed the global, regional and domestic economic and financial developments since the last meeting held on the 23rd of October 2012.

GLOBAL ECONOMY

2. **Since the last meeting of the MPC, growth in the advanced economies, for the most part, remained sluggish.** The Euro Area economy shrank by 0.4 percent for the second consecutive quarter in the third quarter of 2012, as a result of the on-going debt crisis and austerity measures. In the US, while moderate growth recovery of 2.5 percent was observed in the third quarter of 2012, from 2.1 percent in the previous quarter, growth remains fragile. Further, the unresolved fiscal challenge, the so-called fiscal cliff (reversal of tax breaks, and government spending cuts, due to come into place on the 1st of January 2013), may further exacerbate the fragility of the US economy. Japan's economy which showed considerable improvement during the previous quarter at a rate of 3.2 percent, also performed lacklustre, recording a growth of 0.1 percent during the third quarter of 2012. This was mainly due to the slowdown in the growth of its main trading partners, particularly China.

3. **High unemployment rates continued to persists in most of the advanced economies.** Eurozone unemployment reached a new record of 11.7 percent in

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October, up by 0.1 percent from the previous month's record. Both Greece and Spain have unemployment rates of over 25 percent, with youth unemployment making up the largest portion of total unemployment. As a result of high unemployment, slow growth and austerity measures, social unrest has been experienced across many of the Eurozone nations. While unemployment in the US is not as high as the Eurozone, it remains elevated, and increased marginally between September and October, from 7.8 to 7.9 percent.

4. **Like the developed economies, growth in emerging market economies also slowed.** This was largely driven through trade linkages and lower demand for emerging market export products by the developed economies. China experienced a slowdown in growth from 7.6 to 7.4 percent between the second and the third quarters of the year. Similarly, South Africa experienced a large slowdown in growth, from 3.1 percent in the second quarter to 2.3 percent in the third quarter of the year.

5. **Since the last MPC meeting, Central Banks across the globe continued with their accommodative monetary policy stances.** Most advanced economies left their policy rates unchanged given the limited scope to ease their monetary policy stances. With regards to the emerging market economies, the Bank of Brazil reduced its policy rate by 0.25 percent to 7.25 percent in October 2012 to provide room for economic agents to borrow and grow their businesses. Central Banks in China, India, Russia and South Africa, however, did not change their policy stances between October and November 2012.

DOMESTIC ECONOMY

6. **Despite the fragile global growth, domestic growth remains relatively strong.** Growth for 2012 is expected to be 4.6 percent, down from 4.8 percent in 2011. This growth is mainly expected to be driven by the primary industry, particularly mining activities. In addition, the secondary industry is also expected to contribute to this growth, supported by construction activities. Despite slowing down, growth in the tertiary industry will be driven by activities in the wholesale and retail as well as the transport sectors.

7. **Domestic inflation, though rising, remains at tolerable levels.** The increase was driven predominantly by food and beverage inflation, which rose by 2.1 percent month on month, and 10.1 percent year on year. Given the large weighting (almost 30 percent) of food items in the NCPI basket, this increase alone can influence the direction of overall inflation. The majority of the food inflation experienced in Namibia remains driven by external cost-push factors, which are out of Namibia's control. Transport inflation also contributed to the overall inflation level, increasing by 1.2 percent month on month, and 6.1 percent year on year. Once again, much of the transport inflation is driven by external factors, such as high and volatile oil prices.

8. **Private sector credit extension increased by 16.6 percent in October (year on year), which illustrates sustained demand for credit as a result of the accommodative monetary policy stance.** This is the highest level of credit growth seen in five and a half years, and was driven predominantly by credit extension to businesses, which reached 21.1 percent year on year in October. Credit extension to individuals remained at an elevated level of 14.0 percent in October, albeit marginally slower than the 14.7 percent of the previous month. The MPC noted a slowdown in the instalment credit growth between September and October 2012,

from 19.5 percent to 15.2 percent. If this trend is sustained, it could help to stabilise the high levels of indebtedness of individuals in the near- to medium term.

9. **The real trade weighted exchange rate (real effective exchange rate) appreciated in the third quarter of 2012.** However, demand for the majority of Namibia's major exports remains healthy, with diamonds, Namibia's single largest export, remaining strong. On the other hand, global demand for uranium has yet to recover following the Fukushima Daiichi nuclear disaster experienced in 2011. As such, the commodity price remains supressed.

10. **Namibia's stock of international reserves remains sufficient, however, declined on a quarterly basis by 4.5 percent to N$13.7 billion at the end of the third quarter of 2012.** The stock of foreign reserves, however, rose both on a monthly and yearly basis to N$15.1 billion (US$1.7 billion) at the end of October 2012, mainly due to SACU receipts.

MONETARY POLICY STANCE

11. In light of the aforementioned, the MPC remains of the view that uncertainty in the global outlook persists. While some positive developments have been seen in Europe, many challenges remain unaddressed. Similarly, the fiscal cliff in the US continues to present uncertainty to the global economy, transmitted through financial markets and global trade.

12. Notwithstanding positive signs locally, Namibia remains an open economy, and as such is exposed to the uncertainties and vulnerabilities that have buffeted the global economy. It is therefore against this backdrop that the MPC continues to hold the view that the current low interest rate environment should be maintained in order to ensure that growth is supported in the local economy going forward. Further, it will also help to mitigate, as far as possible, the impact of the slowdown in growth seen in many of our trading partners. To this effect, the MPC resolved to keep the Repo rate unchanged at the current level of 5.50 percent.

13. Going forward, the MPC will continue to monitor the developments in both global and domestic economies, including indebtedness of individuals, and will take appropriate actions as required.

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GOVERNOR